

**NYE-DT 40**

## Apache Corporation

### Unveils New Gassy Play in the Southern Delaware Basin & Increases 2016 Capex; Raising 2P NAV

#### Announces the discovery of Alpine High play in the southern Delaware Basin

APA announced the discovery of a significant new resource play (the "Alpine High") in the southern Delaware Basin (primarily in southwest Reeves County) where it has accumulated 307,000 net acres over the course of 2015-16 for ~\$1,300/net acre. While the area has received minimal focus from the industry to date (see Figures 1 & 2), APA estimates its position holds 75 Tcf of rich gas & 3 BBbls of oil resource in place in the Barnett & Woodford formations along with 2,000-3,000+ drilling locations, with oil potential in the shallower Pennsylvanian, Bone Springs, & Wolfcamp formations.

#### Increases 2016 capex to accelerate Alpine High

APA raised its 2016 capex by ~\$200MM to ~\$2bn to accelerate the delineation & development of the Alpine High play (25% of budget) where APA is running 3 of its 4 Permian rigs & has drilled just 19 wells in the play to date. Looking to 2017, it plans to ramp up to a 4-5 rig program in the Alpine High drilling 60-80 Woodford/Barnett wells, a pace sufficient to hold the acreage. Assuming a 2017 capex of \$2.7bn, we forecast APA's volumes will decline ~3.5% YoY (based on soft guidance of North American volumes resuming sequential growth in 2H17) implying a ~\$400MM FCF deficit (after divi) at strip prices. APA expects North American volumes to resume sequential growth in 2H17, weaker than consensus which shows QoQ growth resuming in 1Q17.

#### Raising our NAV but APA still appears fully valued vs peers

We've raised our NAV by ~\$13/share to \$53.70/share. Roughly ~\$10/share of our NAV increase is attributed to the new Alpine High play where we assume ~4 BBoe of net resource (62%/27%/11% gas/NGLs/oil) based on the mid-point of APA's wide ranging well economics for the area. Given APA has drilled just 19 wells in the play to date, it is only including resource/inventory potential for Woodford & Barnett shales (upside also exists in the Penn, Wolfcamp, & Bone Spring), & is assuming 4,100' laterals while most of industry is now utilizing +7,000' laterals implying potential upside to our ~\$10/share estimate for the play. We also raised our EURs for the Midland Basin as APA's new wells are tracking a ~1.2 MMBoe type curve (vs. our prior estimate of ~700 MBoe).

#### Valuation: roughly in line with peers on EV/DACF

Our \$54 PT assumes 5.6x normalized 2017E DACF, in line w/ its hist avg and our NAV.

#### Equities

Americas

Oil Companies, Secondary

12-month rating **Neutral**

12m price target **US\$54.00**

Price **US\$51.67**

RIC: APA.N BBG: APA US

#### Trading data and key metrics

52-wk range US\$58.29-34.38

Market cap. US\$19.6bn

Shares o/s 379m (COM)

Free float 99%

Avg. daily volume ('000) 838

Avg. daily value (m) US\$44.7

Common s/h equity (12/16E) US\$7.00bn

P/BV (12/16E) 2.8x

#### EPS (UBS, diluted) (US\$)

	12/16E		% ch	Cons.
	From	To		
Q1	(0.83)	(0.83)	NM	(0.40)
Q2	(0.26)	(0.26)	NM	(0.26)
Q3E	0.02	0.02	0	(0.05)
Q4E	0.12	0.12	0	0.06
12/16E	(0.95)	(0.95)	NM	(0.64)
12/17E	1.65	1.65	NM	1.16
12/18E	2.85	2.75	-4	2.59

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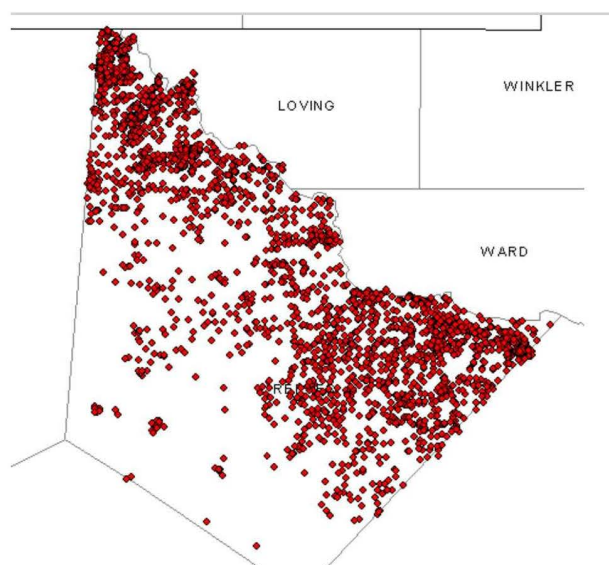
Highlights (US\$m)	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
EBITDX	11,290	9,609	3,537	3,180	4,574	5,516	6,417	6,888
DACF	9,537	7,754	3,222	2,151	3,529	4,264	5,021	5,374
CFPS (UBS, US\$)	22.36	18.94	7.41	4.55	8.10	10.00	11.90	12.75
EPS (UBS, US\$)	8.09	5.93	(0.26)	(0.95)	1.65	2.75	3.80	4.10
Profitability/valuation	12/13	12/14	12/15	12/16E	12/17E	12/18E	12/19E	12/20E
Prod per share growth %	-3.9	-12.4	-13.5	-4.9	-3.7	2.5	5.6	7.3
ROACE %	7.7	6.6	(1.0)	0.2	6.9	9.9	12.3	12.7
EV/EBITDX x	3.8	4.3	8.0	8.3	5.8	4.7	4.0	3.7
EV/DACF x	4.5	5.3	8.7	12.3	7.5	6.1	5.1	4.7
P/CFPS (UBS) x	3.7	4.5	7.3	11.4	6.4	5.2	4.3	4.1

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$51.67 on 06 Sep 2016 19:38 EDT

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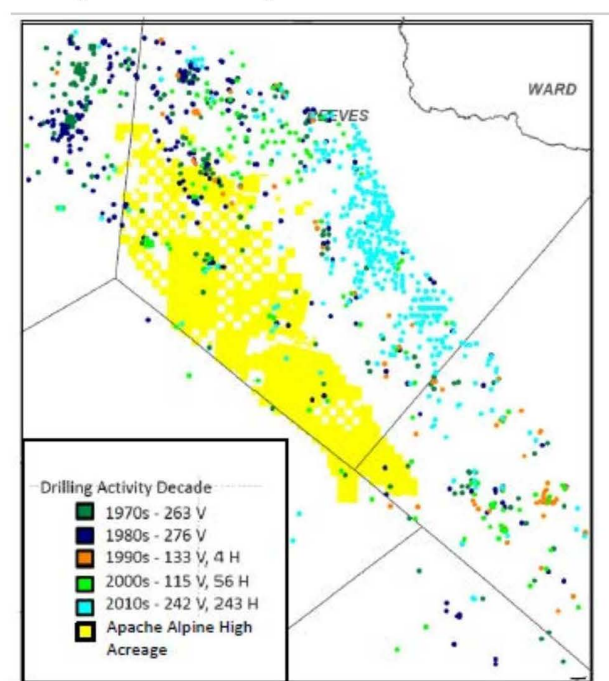
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Figure 1: Wells Drilled in Reeves County, TX to Date



Source: Drilling Info

Figure 2: APA's Alpine High Acreage vs. Historical Drilling Activity in Reeves County, TX



Source: Company Presentation

Figure 3: APA's Valuation vs. Peers Under UBS Price Deck and Futures Strip Prices

	Price 9/7/2016	EV/DACF Hist. Avg.	Valuation Under UBS Price Deck					Valuation Under NYMEX Strip Prices				
			EV/DACF			P/NAV		EV/DACF			P/NAV	
			2016E	2017E	2018E	1P	2P	2016E	2017E	2018E	1P	2P
Anadarko Petroleum	\$57.03	6.9x	13.2x	8.4x	7.0x	1.28x	0.62x	13.8x	10.7x	10.4x	1.67x	0.91x
ConocoPhillips	\$41.10	6.6	11.9	7.1	5.4	NA	NA	12.8	9.5	8.8	NA	NA
Devon Energy	\$43.87	6.0	15.1	9.9	7.5	1.54	0.98	15.7	13.0	12.2	2.34	2.34
EOG Resources	\$94.20	7.3	19.8	12.5	8.8	2.07	1.04	20.6	15.6	13.2	NA	NA
Hess Corporation	\$50.62	5.1	15.4	9.4	7.2	1.10	0.74	16.7	12.2	11.4	1.69	1.39
Marathon Oil	\$15.56	5.5	8.6	8.0	5.5	1.05	0.62	8.8	9.0	8.1	2.21	1.54
Murphy Oil	\$27.60	4.4	8.1	5.4	4.3	1.24	0.73	8.6	7.0	6.9	NA	2.36
Noble Energy	\$35.10	7.4	9.8	8.1	6.0	1.47	0.61	10.1	9.8	8.4	2.07	0.97
Occidental Petroleum	\$77.05	7.4	16.9	11.9	9.2	1.16	1.04	18.0	15.2	13.8	1.31	1.31
<b>Average</b>		<b>6.3x</b>	<b>13.2x</b>	<b>9.0x</b>	<b>6.8x</b>	<b>1.36x</b>	<b>0.80x</b>	<b>13.9x</b>	<b>11.3x</b>	<b>10.3x</b>	<b>1.88x</b>	<b>1.55x</b>
<b>Apache Corporation</b>	<b>\$55.63</b>	<b>5.5x</b>	<b>13.0x</b>	<b>8.0x</b>	<b>6.5x</b>	<b>1.60x</b>	<b>1.04x</b>	<b>13.8x</b>	<b>10.7x</b>	<b>10.5x</b>	<b>NA</b>	<b>NA</b>

Source: UBS estimates and Company documents

Note: Based on current NYMEX natural gas, WTI and Brent strip prices (2016- \$2.45/MMBtu, \$42.79/Bbl & \$44.25/Bbl; 2017- \$3.08/MMBtu, \$48.11/Bbl & \$49.28/Bbl; 2018- \$2.96/MMBtu, \$50.24/Bbl & \$52.29/Bbl; 2019- \$2.94/MMBtu, \$50.98/Bbl & \$54.41/Bbl). All figures include the effect of disclosed hedge positions.

Notes: Based on UBS official NYMEX natural gas and WTI and ICE Brent crude oil commodity price forecasts of: 2016- \$2.45/MMBtu, \$43.81/Bbl & \$46.18/Bbl; 2017- \$3.00/MMBtu, \$57/Bbl & \$60/Bbl; 2018- \$3.00/MMBtu, \$67/Bbl & \$70/Bbl; 2019 & LT- \$3.25/MMBtu, \$72/Bbl & \$75/Bbl.

**Forecast returns**

Forecast price appreciation	+4.5%
Forecast dividend yield	2.0%
Forecast stock return	+6.5%
Market return assumption	5.7%
Forecast excess return	+0.8%

**Valuation Method and Risk Statement**

E&P companies are subject to risks associated with unexpected movements in volatile natural gas and crude oil prices, as well as the impact that political, economic and meteorological events could impart. Moreover, E&P companies are subject to geologic risk (i.e., exploration risk).

Majority of Apache's production comes from outside the US from Canada, Australia, Egypt, North Sea, and Argentina that puts its operation at a higher currency risk than its peer. Moreover, Apache's leverage to worldwide natural gas prices is less apparent. Also, its operations are also levered to higher tax regimes such as Argentina, North Sea and Egypt. Our \$54 PT is based on 5.6x normalized 2017E DACF, in line its historical average.



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<b>Buy</b>	FSR is > 6% above the MRA.	47%	32%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	38%	25%
<b>Sell</b>	FSR is > 6% below the MRA.	15%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 30 June 2016.

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Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Apache Corporation <sup>16</sup>	APA.N	Neutral	N/A	US\$51.67	06 Sep 2016

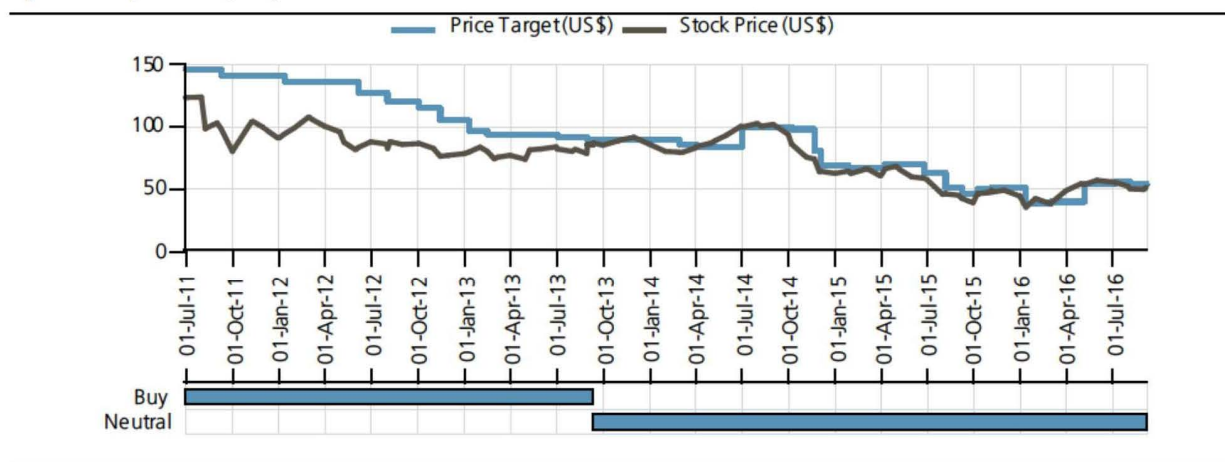
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#### Apache Corporation (US\$)



Source: UBS; as of 06 Sep 2016



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